

Remarks

The September 16, 2008 Office Action for the above referenced application contains rejections of the pending claims on the basis of two references. The references are:

1) "How to sort out the premium drivers of post-deal value"; Mergers and Acquisitions; July/August 1993, Vol. 28, Iss.1; pg. 33, 5 pgs by Daniel W. Bielinski (hereinafter, Bielinski) that teaches the use of Value Based Management (hereinafter, VBM). Bielinski provides additional evidence of the novelty, non-obviousness and newness of the claimed invention in a number of ways including:

a) Bielinski teaches away from the cash flow analysis method of the claimed invention by teaching a strict reliance on analyzing historical cash flow. By way of contrast, the innovative system and method described in the above referenced application (and all Asset Trust applications) relies on the fact that expected future cash flows may contribute to business value.

b) As shown below, Bielinski teaches away from the data analysis method of the claimed invention by characterizing a business with summary level financial statement data and data

Table 1: Operating Cash Flow Sensitivity (from Bielinski)

	1987	1988	1989	1990	1991
Sales	\$7,300,000	\$7,000,000	\$7,900,000	\$8,200,000	\$9,000,000
Raw Material	<u>\$2,000,000</u>	<u>\$1,600,000</u>	<u>\$1,900,000</u>	<u>\$2,000,000</u>	<u>\$2,300,000</u>
Value Added	\$5,300,000	\$5,400,000	\$6,000,000	\$6,200,000	\$6,700,000
HR	\$2,500,000	\$2,600,000	\$2,700,000	\$2,700,000	\$3,000,000
Tech/Capital	\$400,000	\$600,000	\$650,000	\$780,000	\$800,000
Other	<u>\$250,000</u>	<u>\$225,000</u>	<u>\$240,000</u>	<u>\$210,000</u>	<u>\$260,000</u>
Gross Margin	\$2,150,000	\$1,975,000	\$2,410,000	\$2,510,000	\$2,640,000
SG&A	\$1,600,000	\$1,700,000	\$2,100,000	\$2,200,000	\$2,400,000
Other	<u>(\$14,000)</u>	<u>(\$6,000)</u>	<u>(\$25,000)</u>	<u>(\$10,000)</u>	<u>(\$40,000)</u>
Operating Income	\$536,000	\$269,000	\$285,000	\$300,000	\$200,000
Taxes	\$60,000	\$25,000	\$25,000	\$15,000	\$20,000
Depreciation	<u>\$250,000</u>	<u>\$300,000</u>	<u>\$375,000</u>	<u>\$350,000</u>	<u>\$400,000</u>
Cash Flow	\$726,000	\$544,000	\$635,000	\$635,000	\$580,000
Change in NWC	(\$56,000)	\$200,000	(\$467,000)	\$293,000	\$1,000
Capital Expenditures	\$400,000	\$200,000	\$550,000	\$450,000	\$375,000
Operating Cash Flow	\$382,000	\$144,000	\$552,000	(\$108,000)	\$204,000

that can be derived from financial statement data (see Table 2 from Bielinski for additional examples). By way of contrast, the innovative system and method described in the above referenced application teaches and relies on transforming data representative of the business

including element of value data, transaction data and financial statement data into a model of the physical entity (the business) and uses that model for a variety of things including financial management and value optimization

c) Bielinski teaches away from the market efficiency assumptions implicit in the claimed invention by teaching the standard valuation model. By way of contrast, the innovative system and method described in the above referenced application (and all Asset Trust applications) teaches and relies on the fact that market sentiment may contribute to business value. Market sentiment is defined as the difference between the market value of the business enterprise and the value of the non-sentiment categories (or segments) of value within the enterprise.

d) Bielinski teaches away from value creation model incorporated within the claimed invention by teaching that there is one way to change business value: change the value of period cash flow.

Value change per 09/938,874	Value change per Bielinski
1. Change value of cash flow, 2. Change value of elements of value, 3. Change value of growth options & 4. Change value of market sentiment	1. Change value of period cash flow

By way of contrast, the innovative system and method described in the above referenced application (and all Asset Trust applications) teaches and relies on the fact that there are at least four ways to change value between one point in time and another point in time: change the value of cash flow, change the value of the elements of value, change the value of growth options and change the value of market sentiment. A comparison of these teachings is summarized in the table above.

Table 2: Key Factor Cash Flow Sensitivity (from Bielinski)		
Cash Flow/Value Driver	Sensitivity Range	Cumulative Historical Cash Flow % Change
Sales Growth %	+5%	+ 84%
	-5%	- 76%
Raw Material Cost (% reduction in material cost)	-5%	+ 25%
	+5%	- 25%
Production HR (% reduction in HR cost)	- 1%	+ 7%
	+ 10%	- 70%
Inventory Turnover	+ 1 Turn	+1%
	- 1 Turn	-1%

e) Bielinski teaches away from the claimed invention by teaching a meaning for the term “value driver” that is different from the definition used in the specification for the claimed invention. Bielinski teaches that value drivers are high level summaries of enterprise financial performance like operating profit margin and that operational value drivers are sub-components of value (raw material cost and/or production labor cost, see Table 2 copied from Bielinski above and the Table below), and/or summary financial statistics, (i.e. sales growth rate and inventory turnover, which are derived from financial statement data).

Aspect of financial performance	Per 09/938,874	Per Bielinski
Raw material cost	Sub-component of expense value	Operational value driver
Production labor cost	Sub-component of expense value	Operational value driver

By way of contrast, value drivers are defined in the specification for the claimed invention as element of value performance indicators that are causal to changes in components of value (revenue, expense and capital change).

f) Bielinski teaches away from the modeling method of the claimed invention by teaching VBM which relies on the tree based analysis of cash flow. By way of contrast, the innovative system and method described in the above referenced application teaches and relies on a neural network based analysis of revenue, expense, capital change and cash flow. In addition to having a different model topology, there are other differences in the modeling methods used by Bielinski that provide additional evidence of novelty, non-obviousness and newness, including:

1) different assumptions – as is well known to those of average skill in the art, the tree based analysis method used by Bielinski combines the inputs to each node in a linear fashion and passes on the result of the linear combination to the next level in the tree (see Table 2 for confirmation). By way of contrast, the innovative system and method described in the above referenced application teaches and relies on a squashing function such as a sigmoid to analyze the inputs to each node. The squashing function does not assume that there is a linear relationship between the inputs and the output value and may identify a linear or non-linear relationship between the inputs and the output that is passed along to the next level.

2) different levels – as discussed previously, Bielinski teaches a different definition for the term “value driver”. Consistent with this different definition, Bielinski teaches the use of

different levels of aggregation for modeling cash flow than those used in the above referenced application. The levels used by Bielinski are:

- a) First level – Sub-components of value & ratios
- b) Second level – Summary business financial measures
- c) Third level - Cash flow
- d) Fourth level – Value change

By way of contrast, the innovative system and method described in the above referenced application teaches the use of two different layers for cash flow modeling and places one of the layers used by Bielinski in a different position in the hierarchy.

- a) First level – Element of value performance indicators (value drivers)
- b) Second level – Elements of value (i.e. brands, customers, vendors, etc.)
- c) Third level - Sub-components of value (i.e. material cost)
- d) Fourth level - Cash flow
- e) Fifth level – Value Change

3) different data input identification method – as is well known to those of average skill in the art, the financial statement data input to each node of the tree based analysis are specified by the user. By way of contrast, the innovative system and method described in the above referenced application teaches and relies on an innovative combination of genetic algorithms, neural network algorithms and induction algorithms to identify the inputs used to develop models in addition to relying on financial data specified by the user to complete the modeling.

Table 3: Break-Even Key Factor Tradeoffs (from Bielinski)		
Sales Growth %	Gross Profit	Historical Cash Flow Change
+ 1%	- 0.50%	~ 0%
+ 3%	- 1.50%	~ 0%
+ 5%	- 2.50%	~ 0%
- 5%	+ 3.00%	~ 0%
- 3%	+ 1.75%	~ 0%
- 1%	+ 0.50%	~ 0%

g) Bielinski teaches away from the method for identifying value improvements described in the above referenced application by teaching sensitivity analysis (see Bielinski Table 2) and break even analysis (see Bielinski Table 3) to identify improvements. By way of contrast, the innovative system and method described in the above referenced application (and all Asset Trust applications) rely on simulated changes and/or optimization analyses

to determine which value improvements are most worthwhile.

2) 'Neural Networks Enter the World of Management Accounting''; Management Accounting; Montvale, NJ; May 1995, 5 pages, by Carol Brown, James Coakley, & Mary Ellen Phillips (hereinafter Brown) that teaches the use of a neural network model to forecast changes in stock prices. Brown provides additional evidence of the novelty, non-obviousness and newness of the claimed invention in a number of ways including:

a) Brown teaches away from the data analysis method of the claimed invention by focusing solely on analyzing data related to the value of shares of stock for different businesses. By way of contrast, the innovative method and system of the present invention transforms data representative of the business into a model of the physical entity (the business) and uses that model for a variety of things including financial management and value optimization;

b) Brown teaches away from value creation model incorporated within the claimed invention by teaching that there are up to forty factors that change value.

Value change per 09/938,874	Value change per Brown
1. Change value of cash flow, 2. Change value of elements of value, 3. Change value of growth options & 4. Change value of market sentiment	1. Forty unspecified factors

By way of contrast, the innovative system and method described in the above referenced application (and all Asset Trust applications) teaches and relies on the fact that there are at least four ways to change value between one point in time and another point in time: change the value of cash flow, change the value of the elements of value, change the value of growth options and change the value of market sentiment. A comparison of these teachings is summarized in the table above. Because the data used to monitor the four ways to create value described in the instant application are either not available or are available only on a quarterly basis, the forty factors used by Brown to make weekly forecasts have to be different from the four used in the instant application.

c) Brown teaches away from the method for model development by teaching the use of neural networks without genetic algorithms for training. By way of contrast, the innovative system and method described in the above referenced application teaches and relies and the use of genetic algorithms that use independent subpopulations and exchange data between different generations during training

Taken as a whole, the two references provide substantial additional evidence of the novelty, non-obviousness and newness of the claimed invention. The above discussion also provides substantial evidence that the references were selected because they contained a few words that were the same as those in the claims and not because the provided evidence of anticipation and/or obviousness. The latter statement is made because:

- 1) the Examiner who chose the references was apparently unaware of the fact that the relevant portions of the references had previously been disclosed,
- 2) the cited references provide substantial evidence of the novelty and non-obviousness of the claimed inventions by failing to teach and/or by teaching away from all the claimed methods, and
- 3) the cited combination would destroy the ability of the inventions described in the two documents to function (see declaration filed concurrently for detailed confirmation).

Taken as a whole the selection of the two references described above also provides substantial evidence that those authoring the 16 September 2008 Office Action for the above referenced application (and the BPAI which previously confirmed a rejection based on this combination) do not appear to have the capability of understanding the scientific and engineering principles applicable to the pertinent art.

35 U.S.C. §103 Rejection of Claims

In the 16 September 2008 Office Action, claims 79 - 118 are rejected as being unpatentable over a Bielinski document in view of a Brown document. The Examiner has cited these two documents as references. The Assignee respectfully traverses the §103 rejections of claims 79 - 118 in three ways. First, by noting that the cited combination of documents fails to establish a prima facie case of obviousness. Second, by noting that the assertions regarding the alleged obviousness of the claims are not in compliance with the requirements of the Administrative Procedures Act and are therefore moot. Third, by noting that the claim rejections are non-statutory.

As discussed previously, the 16 September 2008 Office Action fails to establish the prima facie case of obviousness required to sustain the rejections of claim 79 - 118. The 27 March 2008 Office Action fails to establish the required prima facie case of obviousness in a number of ways, including: including:

- 1) citing a combination of documents that teach away from their own combination;
- 2) citing a combination of documents that fails to teach or suggest any limitation for any claim;

- 3) citing a combination of documents that would destroy the ability of the disclosed inventions to function, and
- 4) citing a combination of documents that teach away from the claimed invention

The first way the cited combination of documents fails to establish the prima facie case of obviousness required to sustain the rejections of claims 79 - 118 is by citing a combination of documents that teach away from their own combination. MPEP § 2145 X.D.2 provides that: "it is improper to combine references where the references teach away from their combination." Bielinski's prohibition on forecasts is a clear discouragement of a combination with an invention for producing forecasts of stock price changes such as Brown (see *In re Fulton*, 391 F.3d at 1199-1200).

The second way the cited combination of documents fails to establish the prima facie case of obviousness required to sustain the rejections of claims 79 - 118 is by citing a combination of documents that fails teach any of the limitations for any claim (see *In re Royka*, 490 F.2d 981, 180 USPQ 580).

The third way the cited combination of documents fails to establish a prima facie case of obviousness for claims 79 - 118 is that it the proposed combination of Bielinski and Brown would destroy the ability of the methods described by these documents to function (see concurrently filed declaration for a detailed explanation). It is well established that when a modification of a reference destroys the intent, purpose or function of an invention such a proposed modification is not proper and the prima facie cause of obviousness cannot be properly made (*In re Gordon* 733 F.2d 900, 221 U.S.PQ 1125 Fed Circuit 1984).

The fourth way the cited combination of documents fails to establish the prima facie case of obviousness required to sustain the rejections of claims 79 - 118 is by citing a combination of documents that teach away from the claimed invention. The ways in which the cited documents teach away from the claimed method have been described previously on pages 14 through 18 of this document.

The Assignee notes that there are other ways in which the claim rejections can be traversed (i.e. failing to meet requirements established by *KSR v Teleflex*).

Request for Correction

In accordance with the relevant statutes and precedents the Assignee is entitled to expect and receive: an unbiased patent application examination conducted by an Examiner with knowledge of the relevant arts who follows the law. To date, the activity associated with the instant patent

application bears no resemblance to the patent application examination standards dictated by statute and precedent. Prompt correction is requested.

Statement Under 37 CFR 1.111

Amendments to a number of claims are included in the response to the 16 September 2008 Office Action. 37 CFR 1.111 states in part that: *In amending in response to a rejection of claims in an application or patent undergoing reexamination, the Assignee or patent owner must clearly point out the patentable novelty which he or she thinks the claims present in view of the state of the art disclosed by the references cited or the objections made. He or she must also show how the amendments avoid such references or objections.* The Assignee notes that this requirement is not relevant to the instant application because no documents or references that need to be avoided have been identified during the prosecution of this application or any applications in the CIP chain.

Reservation of rights

The Assignee hereby explicitly reserves the right to present the previously modified and/or canceled claims for re-examination in their original format. The cancellation or modification of pending claims to put the instant application in a final form for allowance and issue should not to be construed as a surrender of subject matters covered by the original claims before their cancellation or modification.

Conclusion

The pending claims are of a form and scope for allowance. Prompt notification thereof is respectfully requested.

Respectfully submitted,
Asset Trust, Inc.

/B.J. Bennett/

B.J. Bennett, President

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